

A Publication from INPUT's Market Analysis Programme—Europe

## Processing Services Markets

### Processing in the 1990s

In the early 1980s, the processing services sector accounted for nearly 50% of the computer services industry. However, since then, the advent of lower-cost equipment and the proliferation of software and professional services has led to rapid growth of other delivery modes; this resulted in the processing sector falling to only 15% of the total Western European computer software and services market in 1989.

INPUT research indicates that despite the availability of more software on faster and cheaper hardware platforms, there are significant opportunities in processing, and this relative decline is slowing. Some processing companies have continued to thrive throughout the last ten years, and many companies will continue to maintain profitable processing businesses with healthy growth rates into the 1990s.

The purpose of this research summary is to identify key trends and driving forces that are creating new growth for processing services.



## End-User Trends for Processing

- IS decentralisation
- Need for fast solutions
- External supply
- Networking

### The Challenges Facing End Users

Exhibit 1 lists the most important trends in the end-user market that are driving the computer software and services market. These factors are recognised as reasons for the emergence of systems integration and the re-emergence of facilities management as significant opportunities, but they are equally significant as drivers of the processing services market.

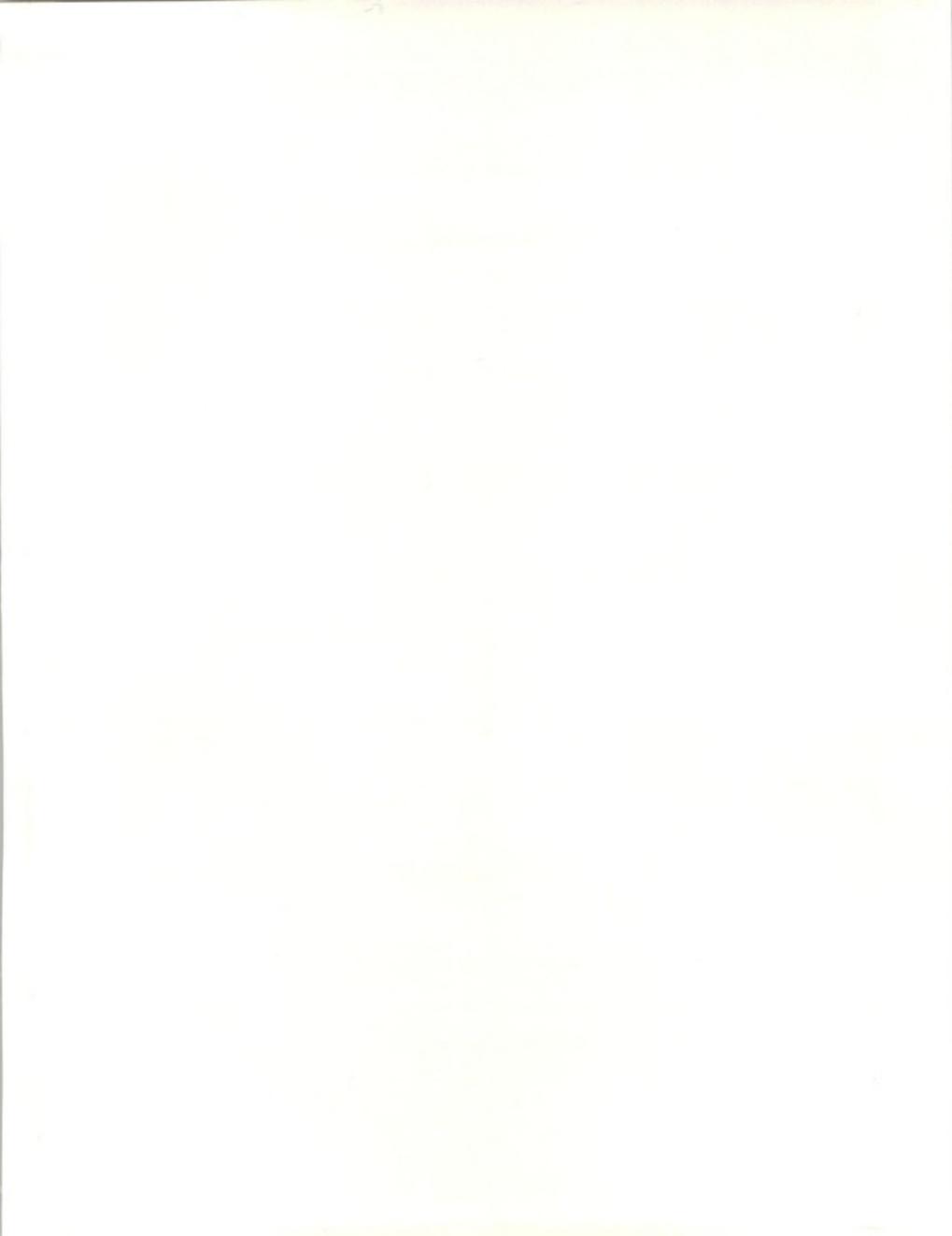
The decentralisation of the in-house IS (information systems) department means that many managers are having to come to terms with making IS decisions that were formerly centralised; decentralisation also creates significant pressures for proper strategy planning and coordination.

At the same time, for many defined problems or applications, there is a need for fast solutions to take the pressure off of critical development projects. Contracting the development and operation of IS systems is becoming an effective solution for many companies. The combination of

readily available software and processing facilities can make a processing services solution a very effective and fast response to specific problems.

Within the overall business environment, there exists a general trend towards external supply of services and product components, as complexity breeds the necessity for specialisation. The increasing proportion of bought-in job assemblies within automobile manufacturing is a good example. This trend implies an increasing tendency to contract externally for information services previously carried out in-house.

Many companies are aware of the availability of networking technology and also of their lack of technical capability to take advantage of this technology. The use of an external supplier that has already invested in a networking infrastructure is an attractive alternative to an in-house network design project using outside consultants.



### **End-User Environment Sophistication**

- Software experience
- Telecommunications experience
- Basic understanding of technology
- Greater autonomy

#### **The Changes to the Client Base**

Compared to the batch processing and timesharing services of ten years ago, a number of significant changes have taken place that will affect the provision of processing services. These changes are summarised in Exhibit 2.

Most end users now have some direct experience of using computer software, either via a personal computer or via an in-house teleprocessing service. Many of these users will have experienced software of high quality, with few bugs, with graphical interfaces, colour and quality documentation.

Many users have personal computers with communications ability that they wish to link to a processing application, or they wish to integrate a processing application into other business systems. Most users now have a basic understanding of technology and a direct experience of fax, modems, word processing etc.

In general, individual departments now have greater autonomy than in the past, and greater freedom to exercise responsibility and seek outside solutions.

In a word, the end-user base is becoming much more sophisticated.



## Critical Success Factors— Processing Services

- Detailed knowledge of application
- Understand client business
- Ownership of software
- Processing element
- Service improvement
- Integrate application

### The Keys to Success in Processing

Many companies that were originally in the bureau business experienced significant trauma as their client base eroded in the face of competition from software on minicomputers and microcomputers, and as a result of improvement in the quality of in-house operating systems. However, many companies have successfully weathered this storm, principally because they were specialists operating within a specific market niche. Opportunities still exist, and it is possible to identify the factors that have made these companies successful.

One of the most significant features of successful processing services businesses is a detailed knowledge of the application and how it fits into the client's business. In many cases, companies providing the service understand the business better

than the client. This and other key factors for success are shown in Exhibit 3.

It is critically important for the provider of the service to be the owner and developer of the application software so that it can be adapted.

A high percentage of processing within a business provides profitability, since this is where the margins are greatest.

It is important to continually improve the service by adding features, so that it is not vulnerable to price competition.

It is important to provide the flexibility to integrate the application into other parts of the clients' business systems.

These and other factors will be analysed in more detail in the processing services report currently being prepared by INPUT. ■

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This Research Bulletin is issued as part of INPUT's Market Analysis Programme—Europe. The information for this bulletin was extracted from a soon-to-be-released report, *Processing Services Markets*.

If you have questions or comments on this bulletin or wish to purchase the report, please contact Peter Lines at INPUT, Piccadilly House, 33/37 Regent Street, London SW1Y 4NF, England.  
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**MERSB 1-1****PROCESSING SERVICES - RESEARCH SUMMARY****PROCESSING IN THE 1990'S**

The European computer services industry started as computer bureaus, whose revenues depended entirely on processing services. However, since then the advent of cheaper equipment, and the proliferation of software and professional services has meant that the Processing Services sector has declined to only 15% of the total Western European Computer Software and Services Market.

INPUT research indicates that despite the availability of more software on faster and cheaper hardware platforms there are significant opportunities in processing, and this decline is slowing. Some processing companies have continued to thrive throughout the last ten years, and many companies will continue to maintain profitable processing businesses with healthy growth rates into the nineteen nineties.

The purpose of this research summary is to briefly indicate why this will be so.

**The Challenges facing end-users**

Exhibit 1 shows the trends in the end-user market that are driving the Computer Software and Service market. These factors are recognised as reasons for the emergence of Systems Integration and the re-emergence of Facilities Management as significant opportunities, but they are equally significant as drivers of the Processing Services market.

The de-centralisation of the in-house IS department means that many managers are having to come to terms with making IS decisions that were formerly centralised, it also creates significant pressures for proper strategy planning and co-ordination.

At the same time, for many problems or applications that are defined, there is a need for fast solutions to take the pressure of the big mission-critical development projects.

This pressure has led to a significant debate in the United States, and latterly in Europe on outsourcing. Contracting out the development and operation of IS systems is becoming an effective solution for many companies. The combination of the readily available software and processing facilities can make a processing services solution a very effective and fast response to specific problems.

Many companies are aware of the availability of networking technology and also of their lack technical capability to take advantage of this technology. The use of a vendor who has already invested in a networking infrastructure is an attractive alternative to an in-house network design project with outside consultants.

**The Changes to the client base**

Compared to the users of batch processing and timesharing services of ten years ago, a number of significant changes have taken place that will



EXHIBIT 1

## END-USER TRENDS FOR PROCESSING

- IS DE-CENTRALISATION
- NEED FOR FAST SOLUTIONS
- OUTSOURCING
- NETWORKING



## PROCESSING SERVICES - RESEARCH SUMMARY

effect the provision of a processing service. These are summarised in Exhibit 2.

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### The keys to success in Processing

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A high element of processing provides profitability, since this is where the margins are greatest.

It is important to continually improve the service by adding features, so that it is not vulnerable to price competition.

It is important to provide the flexibility to integrate the application into other parts of the clients' business systems.

All of these and other factors will be analysed in more detail in the Processing Services report that will be published later this year.



EXHIBIT 2

END-USER ENVIRONMENT - SOPHISTICATION

- SOFTWARE EXPERIENCE
- TELECOMMUNICATIONS EXPERIENCE
- BASIC UNDERSTANDING OF TECHNOLOGY
- GREATER AUTONOMY



EXHIBIT 3

CRITICAL SUCCESS FACTORS- PROCESSING SERVICES

- DETAILED KNOWLEDGE OF APPLICATION
- UNDERSTAND CLIENT BUSINESS
- OWNERSHIP OF SOFTWARE
- PROCESSING ELEMENT
- SERVICE IMPROVEMENT
- INTEGRATE APPLICATION

